

## Message Text

PAGE 01 STATE 154116  
ORIGIN EB-08

INFO OCT-01 AF-10 EUR-12 EA-10 NEA-11 ISO-00 TRSE-00  
SIG-03 ARA-10 HA-05 MMO-01 SS-15 AID-05 STR-07  
COME-00 FRB-03 OMB-01 XMB-02 PA-01 ICAE-00 H-01  
NSCE-00 CIAE-00 INR-10 NSAE-00 OIC-02 ABF-01  
SAB-02 SSO-00 INRE-00 L-03 /124 R

DRAFTED BY EB/IFD/ODF:RHJONES:SMCP

APPROVED BY EB/IFD:CFMEISSNER

ARA - MR. BUSHNELL

TREASURY - MR. BERGSTEN (DRAFT)

-----111823 170031Z /64

O 162213Z JUN 78

FM SECSTATE WASHDC

TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS IMMEDIATE

AMEMBASSY MANILA IMMEDIATE

AMEMBASSY ABIDJAN IMMEDIATE

AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY MADRID IMMEDIATE

AMEMBASSY STOCKHOLM IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY VIENNA IMMEDIATE

AMEMBASSY OTTAWA IMMEDIATE

AMEMBASSY COPENHAGEN IMMEDIATE

AMEMBASSY HELSINKI IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY TEL AVIV IMMEDIATE

AMEMBASSY ROME IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

AMEMBASSY BERN IMMEDIATE

AMEMBASSY LONDON IMMEDIATE

AMEMBASSY BELGRADE IMMEDIATE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 154116

LIMITED OFFICIAL USE STATE 154116

EMB. MANILA FOR USADB, EMB. ABIDJAN FOR USAFDF HENNESEY,

E.O. 11652: N/A

TAGS: EAID, IDB

SUBJECT: INTER-AMERICAN DEVELOPMENT BANK REPLENISHMENT  
NEGOTIATION

BRUSSELS ALSO FOR USEEC, PARIS ALSO FOR USOECD

REF: STATE 141137

1. AS REPORTED REFTEL, MEETINGS WILL BE CONVENED IN WASHINGTON JUNE 29-30 TO DISCUSS POLICY ISSUES RAISED BY US AND OTHERS AT MADRID MEETING OF WORKING GROUP ON REPLENISHMENT OF IDB RESOURCES. EMBASSY SHOULD APPROACH APPROPRIATE LEVEL OFFICIALS IN HOST GOVERNMENT TO ENSURE THAT EACH COUNTRY IS ADEQUATELY REPRESENTED AT THESE MEETINGS. IN YOUR CONTACTS YOU SHOULD STRESS THAT THE US STRONGLY DESIRES TO REACH SPEEDY AGREEMENT ON THE REPLENISHMENT. YOU SHOULD ADD, HOWEVER, THAT WE CANNOT BEGIN SERIOUS NEGOTIATION ON LEVELS UNTIL SATISFACTORY AGREEMENT HAS BEEN REACHED ON POLICY ISSUES, AND IT IS THEREFORE ESSENTIAL THAT ALL COUNTRIES BE REPRESENTED AT JUNE MEETINGS BY SOMEONE WHO CAN ACT AUTHORITATIVELY ON THESE ISSUES. PLEASE ALSO EMPHASIZE THAT THE MEETING OF THE COMMITTEE OF THE BOARD IS PARTICULARLY SIGNIFICANT SINCE WE VIEW IT AS THE PRINCIPAL BODY FOR THE REPLENISHMENT DISCUSSIONS ALTHOUGH DISCUSSIONS AT THE MEETING OF THE WORKING GROUP ON FUNCTIONS AND POLICIES WILL ALSO BE IMPORTANT. FYI: SINCE

OUR ABILITY TO SECURE CONGRESSIONAL SUPPORT FOR PLEDGES  
LIMITED OFFICIAL USE  
LIMITED OFFICIAL USE

PAGE 03 STATE 154116

WILL DEPEND HEAVILY ON OUR ABILITY TO CONVINCE CONGRESS THAT THE FINAL PACKAGE OF POLICY REFORMS IS ADEQUATE, WE MUST BE CLOSE TO AGREEMENT ON POLICY ISSUES BEFORE WE CONSULT THE CONGRESS OR AGREE TO REPLENISHMENT LEVELS. END FYI.

2. IN YOUR DISCUSSIONS STATE THE PRIMARY OBJECTIVES, LISTED BELOW, WHICH WE SHALL PURSUE AT THE JUNE MEETINGS. THERE ARE FOUR OBJECTIVES:

- (A) A GREATER EMPHASIS ON LENDING FROM THE IDB'S HARD WINDOW;
- (B) MORE EFFICIENT USE OF THE BANK'S RESOURCES;
- (C) GREATER CONCENTRATION OF CONCESSIONAL LENDING ON THE POOR; AND,
- (D) INCREASED BURDEN SHARING OF THE CONVERTIBLE-CURRENCY COST OF FINANCING THE BANK'S OPERATIONS.

WE BELIEVE THAT THE OVERALL THRUST OF OUR PROPOSALS IS TO BETTER SATISFY THE LEGITIMATE NEEDS OF LATIN AMERICA AND TO MAKE THE BANK A MORE EFFECTIVE INSTITUTION. ALTHOUGH WE ARE FLEXIBLE ON SPECIFICS, WE MUST ACHIEVE OUR BASIC OBJECTIVES.

3. WE REALIZE THAT OFFICIALS WITH WHOM YOU WILL SPEAK MAY BE MORE EXPERT CONCERNING THE TECHNICAL ASPECTS OF

THE IDB REPLENISHMENT; YOU MAY THEREFORE WISH TO AVOID EXTENSIVE DISCUSSION OF THE US PROPOSALS. HOWEVER, AS NEEDED, YOU MAY DRAW ON THE BACKGROUND MATERIAL CONTAINED IN THE FOLLOWING PARAGRAPHS. SEPTTEL PROVIDES TEXT OF US DELEGATE'S SPEECH AT MADRID MEETING AS FURTHER BACKGROUND.

4. WE BELIEVE MANY LATIN AMERICAN COUNTRIES HAVE REACHED A STAGE OF DEVELOPMENT WHICH REQUIRES THAT INCREASING EMPHASIS BE PLACED ON HARD-WINDOW LENDING. THIS SHIFT IN EMPHASIS WILL BE ACCOMPLISHED PRIMARILY BY A  
LIMITED OFFICIAL USE  
LIMITED OFFICIAL USE

PAGE 04 STATE 154116

REPLENISHMENT

OF IDB CAPITAL PROPORTIONATELY LARGER THAN THE REPLENISHMENT OF THE CONCESSIONAL FUND FOR SPECIAL OPERATIONS (FSO). WHILE CAPITAL LENDING MAY CONTINUE TO GROW IN REAL TERMS, FSO LENDING WILL DECLINE IN REAL AND PERHAPS EVEN IN NOMINAL TERMS. TO ENSURE THAT RELATIVELY SCARCE FSO RESOURCES ARE EFFICIENTLY USED AND EQUITABLY ALLOCATED SO AS TO HAVE THE MAXIMUM IMPACT ON THE ALLEVIATION OF POVERTY IN THE REGION, THEY SHOULD BE INCREASINGLY FOCUSED ON THE POORER COUNTRIES IN THE REGION, AND PROGRAMMED TO REACH THE POOREST PEOPLE WITHIN THOSE COUNTRIES. AS A WAY TO ACHIEVE THIS, WE PROPOSE THAT THERE BE A TWO-PART PROCEDURE FOR FSO LENDING: (A) LENDING WOULD BE CHanneLED TO THE POOREST COUNTRIES BY MEANS OF RESTRICTED FSO COUNTRY ACCESS CRITERIA, BASED UPON OBJECTIVE ECONOMIC FACTORS, AND (B) FSO-FUNDED PROJECTS WOULD BE DESIGNED PRIMARILY TO BENEFIT SELECTED TARGET GROUPS OF POOR PEOPLE IN ELIGIBLE

COUNTRIES. WE ARE ALSO PROPOSING THAT SUBSTANTIAL HARD-WINDOW LENDING BE FOR THE DIRECT BENEFIT OF LOW-INCOME RECIPIENTS, URBAN OR RURAL, SO THAT 50 PERCENT OF TOTAL BANK LENDING IS FOR THE BENEFIT OF THE POOR.

5. TO SATISFY THE NEEDS OF THE MIDDLE-INCOME COUNTRIES FOR RESOURCES AS THE AVAILABILITY OF CONCESSIONAL FSO FUNDS DECLINES, THE IDB SHOULD DEVOTE A GREATER PERCENTAGE OF ITS CAPITAL RESOURCES TO THESE COUNTRIES. WHILE CAPITAL RESOURCES WOULD CONTINUE TO BE AVAILABLE TO THE MORE ADVANCED COUNTRIES (ARGENTINA, BRAZIL, AND MEXICO), THE IDB INCREASINGLY SHOULD SEEK COMPLEMENTARY FINANCING FROM PRIVATE INSTITUTIONS FOR THEM.  
LIMITED OFFICIAL USE  
LIMITED OFFICIAL USE

PAGE 05 STATE 154116

6. TO IMPROVE THE QUALITY OF ITS CONTRIBUTION TO THE

DEVELOPMENT PROCESS WE ARE ALSO PROPOSING THAT THE BANK TAKE INTO GREATER ACCOUNT IN ITS LENDING THE BORROWING COUNTRY'S EFFORTS TO MEET ITS DEVELOPMENT GOALS, PRIORITY OF EACH PROPOSED LOAN WITHIN DEVELOPMENT PLANS, AND LOAN EXPERIENCE IN THE SECTOR. THE DOCUMENTATION OF LOANS BEING PROPOSED FOR APPROVAL SHOULD CONTAIN AN ANALYSIS OF THESE FACTORS.

7. TO PROVIDE MAXIMUM IMPACT, ALL FUNDS PROVIDED TO THE BANK SHOULD BE USABLE TO SUPPORT LATIN AMERICAN AND CARIBBEAN DEVELOPMENT. ONE WAY TO DO THIS WOULD BE FOR ALL CAPITAL AND FSO RESOURCES PROVIDED TO THE BANK BY ITS MEMBERS BE IN CONVERTIBLE CURRENCY OR IN NATIONAL CURRENCIES WHICH ARE CONVERTIBLE ON DEMAND BY THE BANK AS NEEDED. NATIONAL CURRENCY RESOURCES PRESENTLY HELD BY THE BANK WOULD BE CONVERTED OVER A REASONABLE PERIOD OF TIME TO CONVERTIBLE CURRENCIES. FYI: AT PRESENT THE IDB HOLDS CONSIDERABLE QUANTITIES OF SOME NATIONAL CURRENCIES WHICH THEY HAVE BEEN UNABLE TO LEND PARTICULARLY IN THE CAPITAL ACCOUNTS. IN THE PREVIOUS REPLENISHMENT, ALL LATIN MEMBERS CONTRIBUTED HALF OF THEIR 10 PERCENT PAID-IN CAPITAL IN CONVERTIBLE CURRENCY AND HALF IN NATIONAL CURRENCY. VENEZUELA AND TRINIDAD AND TOBAGO CONTRIBUTED ONLY CONVERTIBLE CURRENCY TO THE FSO. ARGENTINA, BRAZIL, AND MEXICO MADE ONE-FOURTH OF THEIR FSO CONTRIBUTION IN CONVERTIBLE CURRENCIES. ALL OTHER LATIN MEMBERS CONTRIBUTED ONLY NATIONAL CURRENCY TO THE FSO. END FYI. THE POORER MEMBERS SHOULD MAKE MODEST CONTRIBUTIONS TO THE FSO IN CONVERTIBLE CURRENCY; THE LATIN MEMBERS WHICH CURRENTLY CONTRIBUTE CONVERTIBLE CURRENCY TO THE FSO SHOULD INCREASE THOSE CONTRIBUTIONS SO THAT ALL PARTICIPATE ACCORDING TO ABILITY. THE WILLINGNESS OF NON-REGIONAL MEMBERS TO INCREASE THEIR COMBINED SHARE OF IDB CAPITAL SUBSCRIPTIONS TO 8 PERCENT DURING THIS LIMITED OFFICIAL USE  
LIMITED OFFICIAL USE

PAGE 06 STATE 154116

REPLENISHMENT WOULD ALSO BE A WAY TO REDUCE SLIGHTLY THE BURDEN ON THE LATIN MEMBERS. THIS COULD BE DONE AT THE COST OF APPROXIMATELY 4 PERCENT OF LATIN AMERICA'S CURRENT TOTAL VOTING POWER. SUCH A REDUCTION WOULD LEAVE THE LATIN'S VOTING POWER ABOVE THE MINIMUM OF 53.5 PERCENT PRESCRIBED IN THE CHARTER.

8. ANOTHER ISSUE FOR DISCUSSION IS THE QUESTION OF LOCAL AND INDIRECT COST FINANCING WITH CONVERTIBLE CURRENCY. ALTHOUGH SOME LOCAL COST FINANCING BY THE BANK IS REQUIRED TO REACH POOR PEOPLE EFFECTIVELY, PARTICULARLY FOR PROJECTS

IN THE POORER COUNTRIES, STANDARDS FOR PROJECTS IN THE MORE ADVANCED COUNTRIES, ESPECIALLY ON INDIRECT COSTS, MUST BE TIGHTENED TO ENSURE THAT THE BANK USES ITS SCARCE

CONVERTIBLE CURRENCY PRIMARILY FOR FOREIGN EXCHANGE COSTS. FYI: IN 1976, FOR EXAMPLE, \$191.1 MILLION IN CONVERTIBLE CURRENCY WAS DISBURSED AGAINST PREVIOUS ORDINARY CAPITAL (NOT FSO) LOAN COMMITMENTS IN ARGENTINA, BRAZIL, AND MEXICO. OF THIS AMOUNT \$104.5 MILLION WAS EXPENDED IN THE BORROWING COUNTRY BUT FINANCED ONLY \$86.3 MILLION OF DIRECT IMPORT COSTS. THESE THREE LARGEST BORROWERS CURRENTLY ABSORB ABOUT 75 PERCENT OF THE BANK'S CAPITAL RESOURCES. WE BELIEVE THAT THE HARD CURRENCY NEEDS (INCLUDING LOCAL COSTS) OF THE LESS DEVELOPED COUNTRIES OF THE REGION SHOULD BE GIVEN PRIORITY FOR BANK FINANCING OVER COSTS IN THE MORE ADVANCED COUNTRIES WHICH COULD BE MET WITH LOCAL CURRENCY. END FYI.

9. FOR BUENOS AIRES, BRASILIA, MEXICO CITY: PRINCIPAL EFFECT ON THESE MOST ADVANCED COUNTRIES WOULD BE A CONTINUATION OF PRESENT ABSTENTION FROM FSO CONVERTIBLE CURRENCY BORROWING; SOMEWHAT SMALLER CAPITAL LENDING PROGRAM FOR LIMITED OFFICIAL USE

PAGE 07 STATE 154116

THE GROUP WITH POSSIBLE REDUCTIONS COMPENSATED BY INCREASED COMPLEMENTARY LENDING. (HOWEVER, EACH COUNTRY WOULD BORROW ACCORDING TO NEED AS DETERMINED BY THEIR ECONOMIC CIRCUMSTANCES AND WOULD NOT ALL NECESSARILY GET THE SAME AMOUNTS); AND MODERATE INCREASES IN THEIR PROPORTIONS OF CONTRIBUTIONS TO THE BANK'S CONVERTIBLE-CURRENCY FINANCING. WE FEEL THE INCREASE WOULD BE NEGLIGIBLE IN COMPARISON TO BOTH THEIR OWN ABILITIES TO PROVIDE FUNDS AND THEIR STILL CONSIDERABLE ACCESS TO IDB DIRECT AND COMPLEMENTARY LENDING.

10. FOR OTHER REGIONAL BORROWING COUNTRIES: IMPACT WOULD BE SOMEWHAT DIFFERENT. IN GENERAL, HOWEVER, A REPLENISHMENT OF REASONABLE SIZE WOULD PERMIT REAL INCREASES IN OVERALL LENDING FOR THIS GROUP, ALTHOUGH SHIFT TOWARD CAPITAL BORROWING WOULD MEAN SLIGHTLY HARDER TERMS FOR

MIDDLE-INCOME COUNTRIES. IT IS IMPORTANT TO EMPHASIZE TO LOWEST PER CAPITA INCOME COUNTRIES THAT THE US POSITION IS HIGHLY BENEFICIAL TO THEM SINCE IT WOULD INCREASE THE PROPORTION OF IDB RESOURCES, ESPECIALLY CONCESSIONAL FUNDS, RESERVED FOR THEIR USE. THEREFORE, IT IS VERY MUCH IN THEIR INTEREST TO SUPPORT THE US POSITION ACTIVELY AT JUNE MEETINGS.

11. FOR NON-REGIONAL COUNTRIES: THRUST OF OUR PROPOSALS WOULD MEAN THAT THESE COUNTRIES AS WELL AS MORE ADVANCED LATIN MEMBERS WOULD ASSUME A GREATER SHARE OF THE CONVERTIBLE-CURRENCY CONTRIBUTIONS OF THE CAPITAL REPLENISHMENT, WHICH WE FEEL IS FULLY WARRANTED IN LIGHT OF NON-REGIONAL

SHARE OF PROCUREMENT FOR THE BANK'S PROJECTS AND LATIN  
AMERICA'S GROWING ECONOMIC IMPORTANCE TO THEM. OUR PRO-  
POSALS WOULD SERVE TO DIRECT APPROPRIATE FINANCIAL ASSIST-  
ANCE TO THOSE COUNTRIES WHICH MOST NEED IT. YOU SHOULD  
STRESS THAT OUR ABILITY TO MAKE PLEDGES WHICH CONGRESS  
LIMITED OFFICIAL USE  
LIMITED OFFICIAL USE

PAGE 08 STATE 154116

WILL ULTIMATELY SUSTAIN IS DIRECTLY DEPENDENT UPON OUR  
ABILITY TO NEGOTIATE A MEANINGFUL PACKAGE ON THESE POLICY  
QUESTIONS.

12. ALL POSTS: PLEASE ADVISE HOST GOVERNMENTS THAT WE  
WILL WELCOME ANY PROPOSALS THEY MAY HAVE WHICH WILL HELP  
MEET OUR OBJECTIVES. PLEASE REPORT RESULTS OF YOUR  
CONVERSATIONS AND LIKELY REPRESENTATIVES TO MEETINGS  
AS SOON AS POSSIBLE AND IN ANY EVENT  
BEFORE JUNE 23. NEWSOM

LIMITED OFFICIAL USE

<< END OF DOCUMENT >>

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 26 sep 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** DEVELOPMENT BANKS, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 16 jun 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978STATE154116  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** EB/IFD/ODF:RHJONES:SMCP  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** n/a  
**Expiration:**  
**Film Number:** D780253-0035  
**Format:** TEL  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t197806115/baaaeyyt.tel  
**Line Count:** 294  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, TEXT ON MICROFILM  
**Message ID:** 71304f7e-c288-dd11-92da-001cc4696bcc  
**Office:** ORIGIN EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** STATE 141137  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2177543  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** INTER-AMERICAN DEVELOPMENT BANK REPLENISHMENT NEGOTIATION BRUSSELS ALSO FOR USEEC, PARIS ALSO FOR USOECD  
**TAGS:** EAID, IDB  
**To:** ALL AMERICAN REPUBLIC DIPLOMATIC POSTS MANILA MULTIPLE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/71304f7e-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014